

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 PA-02 PRS-01 /118 W

----- 020366

R 150824Z JUL 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8316

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

US DEL MTN GENEVA 366

USMISSION GENEVA

USMISSION OECD PARIS

UNCLAS SEOUL 5450

HONG KONG FOR REGFINATT

E.O. 11652: N/A

TAGS: EFIN, ETRD, GATT, MTN, KS

SUBJ: KOREAN BALANCE OF PAYMENTS SHOWS STRIKING

REF: SEOUL 4755

SUMMARY: WITH JUNE EXPORTS HITTING AN ALL-TIME HIGH OF \$695 MILLION, KOREA IS ENJOYING A REMARKABLE RECOVERY IN ITS BALANCE OF PAYMENTS POSITION IN 1976. JUDGING FROM CURRENT TRENDS AND ASSUMING NO CHANGE IN IMPORT POLICIES, KOREA APPEARS HEADED TOWARDS A CURRENT ACCOUNT DEFICIT OF AS LOW AS \$800 OR \$900 MILLION FOR THE YEAR, A STUNNING IMPROVEMENT OVER THE \$2 BILLION DEFICITS OF THE PAST TWO YEARS. WHILE DATA ON CAPITAL ACCOUNTS ARE STILL SKIMPY, THE PRESENT OUTLOOK IS FOR A SURPLUS ON BASIC ACCOUNT OF PERHAPS \$400 MILLION AND A DEBT SERVICE RATIO OF UNDER 12 PERCENT.

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END SUMMARY.

1. STRONG TRADE RESULTS IN JUNE CLOSED OUT A REMARKABLE FIRST HALF BALANCE OF PAYMENTS PERFORMANCE FOR THE KOREAN ECONOMY. JUNE EXPORT SHIPMENTS (KFX NEGOTIATIONS BASIS) REACHED AN ALL-TIME HIGH OF \$695 MILLION. THE JUNE TOTAL, WHICH, TO GIVE PERSPECTIVE IS HIGHER THAN ANY FULL YEAR'S EXPORTS PRIOR TO 1970, RAISED THE KFX EXPORT COUNT OVER THE FIRST SIX MONTHS TO \$3,322 MILLION, UP 65 PERCENT OVER LAST YEAR'S WEAK FIRST SEMESTER. THE FINAL CUSTOMS CLEARANCE TALLY ON FIRST HALF EXPORTS COULD BE AS MUCH AS \$100 MILLION OR SO HIGHER THAN THE KFX TOTAL. MEANWHILE, THE COMBINATION OF THE FAVORABLE JUNE TRADE PERFORMANCE AND STILL FURTHER INFLOWS OF SHORT-TERM CAPITAL PUSHED GROSS FOREIGN EXCHANGE RESERVES OVER THE \$2 BILLION MARK TO \$2,032 MILLION AS OF JUNE 30.

2. RESULTS ARE ALSO WELL AHEAD OF EXPECTATIONS IN THE INVISIBLE TRADE ACCOUNT. WHILE DETAILS ARE SKETCHY, STRONGLY EARNINGS FROM TOURISM AND OVERSEAS CONSTRUCTION ACTIVITIES AND LOWER-THAN-ANTICIPATED NET SHORT-TERM INTEREST OUTLAYS (I.E., INTEREST ON SHORT-TERM DEBT NET OF INTEREST EARNINGS ON FOREIGN EXCHANGE HOLDINGS) APPEAR TO BE THE MAJOR CONTRIBUTORS.

3. PRELIMINARY FIRST QUARTER DATA FOR MAJOR CURRENT ACCOUNT TRANSACTIONS JUST OBTAINED FROM THE BANK OF KOREA (BOK) PROVIDE FURTHER CONFIRMATION OF THE EXCEPTIONAL RECENT TRENDS IN KOREA'S BALANCE OF PAYMENTS. THESE FIGURES SHOW JAN.-MARCH EXPORTS OF \$1,440 MILLION AND IMPORTS OF \$1,670 MILLION (BOTH ON A CUSTOMS CLEARANCE, F.O.B. BASIS) PRODUCING A VISIBLE TRADE DEFICIT OF \$230 MILLION IN WHAT IS NORMALLY THE SEASONALLY WEAKEST QUARTER FOR THE TRADE DEFICIT. EQUALLY IMPRESSIVE, THE NET DEFICIT FOR THE SERVICES AND TRANSFERS ACCOUNTS WAS ONLY \$30 MILLION, AS COMPARED TO A FULL YEAR DEFICIT OF \$316 MILLION (PRELIMINARY) FOR 1975 AND A PROJECTED DEFICIT OF \$557 MILLION FOR 1976.

4. SOME CAUTION MUST BE USED IN INTERPRETING THESE PRELIMINARY FIGURES SINCE: (1) FOREIGN LOAN AND INVESTMENT IMPORTS APPEAR TO HAVE BEEN ABNORMALLY LOW FOR THE QUARTER; AND (2) THE INITIAL ACCOUNTING INCLUDES AN ERROR UNCLASSIFIED

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AND OMISSIONS ENTRY OF \$150 MILLION, SUGGESTING THE FINAL IMPORT TOTAL MIGHT BE REVISED UPWARD BY ROUGHLY THAT MAGNITUDE. EVEN WITH THESE ALLOWANCES, THE RESULTS ARE FAR BETTER THAN ANTICIPATED IN THE ORIGINAL OVERALL RESOURCES BUDGET PROJECTION OF A FULL YEAR CURRENT ACCOUNT DEFICIT OF \$1.5 BILLION FOR 1976.

5. IN FURTHER GOOD NEWS, JUNE EXPORT LETTER-OF-CREDIT

(L/C) ARRIVALS REBOUNDED TO \$677 MILLION AFTER SLIPPING BACK TO \$590 MILLION IN MAY. PRELIMINARY DATA THROUGH JULY 10 INDICATE JULY EXPORT RESULTS ARE LIKELY TO BE SIMILAR TO THOSE OF JUNE. ON THE STRENGTH OF CURRENT TRENDS, THE EMBASSY BELIEVES A FULL YEAR EXPORT TOTAL OF \$7.5 BILLION IS WELL WITHIN REACH. WHILE QUASI-OFFICIAL ROKG REVISED EXPORT FORECASTS ARE STILL HOVERING AT ABOUT \$7.0 BILLION, THEY ARE ALMOST INVARIABLY CHARACTERIZED AS CONSERVATIVE BY THE FORECASTERS THEMSELVES.

6. PARTIAL, OR KFX, IMPORT DATA FOR JUNE SHOW KFX IMPORTS OF \$602 MILLION AND KFX IMPORT LICENSING OF \$614 MILLION, THE SECOND CONSECUTIVE MONTH THAT BOTH KFX IMPORTS AND IMPORT LICENSING HAVE FINISHED AROUND THE \$600 MILLION LEVEL. WHILE SOME ROKG ACTION TO EASE IMPORT RESTRAINTS FOR MAJOR RAW MATERIALS AND CAPITAL EQUIPMENT IS POSSIBLE, NO DRAMATIC SHIFT IN IMPORT POLICY IS EXPECTED. ASSUMING EXPORTS OF \$7.5 BILLION, THE EMBASSY FORESEES AN IMPORT LEVEL OF ROUGHLY \$8.0 BILLION, F.O.B. COUPLED WITH THE REVISED OUTLOOK FOR THE SERVICES AND TRANSFERS ACCOUNTS, A FULL YEAR CURRENT ACCOUNT DEFICIT AS LOW AS \$800 TO \$900 MILLION IS ENTIRELY POSSIBLE, ASSUMING NO CHANGE IN ROKG POLICIES. THIS PROSPECT CONTRASTS WITH CURRENT ACCOUNT DEFICITS OF ROUGHLY \$2 BILLION IN EACH OF THE PAST TWO YEARS.

7. DATA ON CAPITAL ACCOUNTS IS STILL SKIMPY. RECENT MEASURES TO CHECK THE GROWTH OF SHORT-TERM CAPITAL FLOWS AND TO STABILIZE GROSS RESERVES AT AROUND THE \$2 BILLION LEVEL SHOULD BEGIN TO HAVE AN IMPACT IN THE SECOND HALF, BUT RESERVES WILL PROBABLY CONTINUE EDGING UP FOR THE TIME BEING. WHILE SUCH EVIDENCE AS IS AVAILABLE SUGGESTS THAT EARLIER SKEPTICISM OVER SOME OF THE OPTIMISTIC 1976 TARGETS FOR GROSS LONG-TERM LOAN AND INVESTMENT INFLOWS WAS JUSTIFIED, NET UNCLASSIFIED

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MEDIUM/LONG-TERM CAPITAL INFLOWS, INCLUDING KOREA DEVELOPMENT BANK BORROWINGS, SHOULD BE SUFFICIENT TO ASSURE A SURPLUS ON BASIC ACCOUNT OF PERHAPS \$400 MILLION FOR THE YEAR AS A WHOLE (I.E., CURRENT ACCOUNT PLUS MEDIUM/LONG-TERM CAPITAL ACCOUNT). WITH EXPORT EARNINGS FAR EXCEEDING ORIGINAL PROJECTIONS, THE DEBT SERVICE RATIO, IN TURN, SHOULD DROP BELOW 12 PERCENT (I.E. SERVICE ON DEBT OF ONE YEAR OR OVER AS A RATIO OF CURRENT EXPORTS OF GOODS AND SERVICES).

SNEIDER

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC RECOVERY, ECONOMIC REPORTS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SEOUL05450
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760272-1191
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760755/aaaabvzu.tel
Line Count: 164
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 SEOUL 4755
Review Action: RELEASED, APPROVED
Review Authority: schaefaj
Review Comment: n/a
Review Content Flags:
Review Date: 26 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 FEB 2004 by ThomasVJ>; APPROVED <05 OCT 2004 by schaefaj>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KOREAN BALANCE OF PAYMENTS SHOWS STRIKING
TAGS: EFIN, ETRD, KS, GATT, MTN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006